



BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Spring 2008 Survey

Vol. 5.1 14 April 2008

Overview

- In the spring survey, a number of indicators eased from their level in the winter survey. While the weaker U.S. economic situation is weighing more heavily on the outlook, firms are not expecting a marked change in the pace of business activity.
- On balance, firms reported an increase in sales growth over the past year, and they expect sales to grow at about the same pace over the next 12 months.
- Fewer firms reported capacity pressures than in recent surveys, yet firms expect input and output prices to increase at a faster pace over the next 12 months in light of the recent strength in energy and food prices. Inflation expectations continue to be concentrated within the Bank's inflation-control range.
- For the third consecutive quarter, firms reported that credit conditions have tightened.

Business Activity

Firms continued to report higher sales growth over the past 12 months (**Chart 1**), although the balance of opinion declined from its level in the winter survey, owing partly to slower sales growth in the manufacturing sector. The balance of opinion on future sales growth turned negative but remains close to zero (**Chart 2**), suggesting that sales will increase at a pace similar to that over the past 12 months. Firms negatively affected by the weaker U.S.

Chart 1 Past Sales Growth: Balance of Opinion*

Over the past 12 months, did your firm's sales volume increase at a greater, lesser, or the same rate as over the previous 12 months?

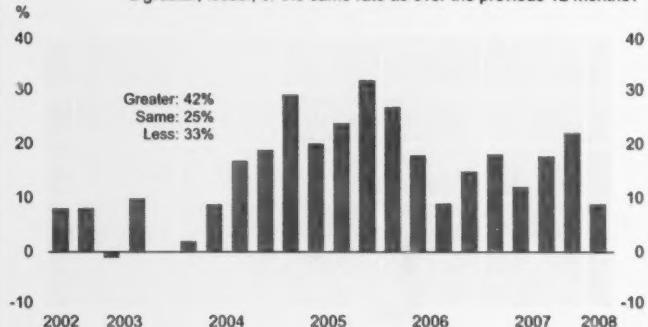
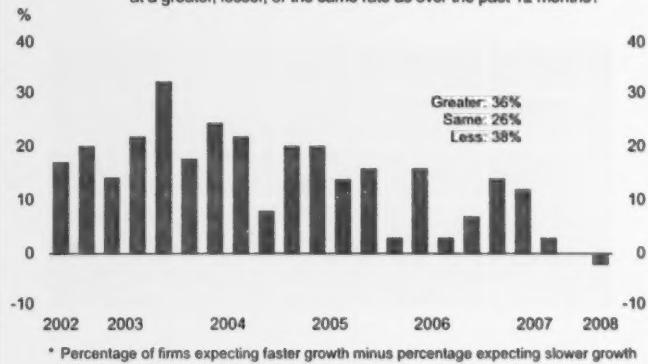


Chart 2 Future Sales Growth: Balance of Opinion*

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser, or the same rate as over the past 12 months?



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economic situation are generally expecting sales growth to moderate, while those less exposed are more optimistic about sales prospects.

The balance of opinion on investment in machinery and equipment remains positive but has moved closer to zero (**Chart 3**), indicating that firms expect the level of investment to be about the same as over the past 12 months. Among firms planning to invest less, most of whom are based in Central and Eastern Canada, the most common reason cited was significant investment spending over the past year, followed by a desire to preserve cash given uncertainty about the economic outlook. Firms located in Western Canada generally expect to increase investment spending over the next 12 months.

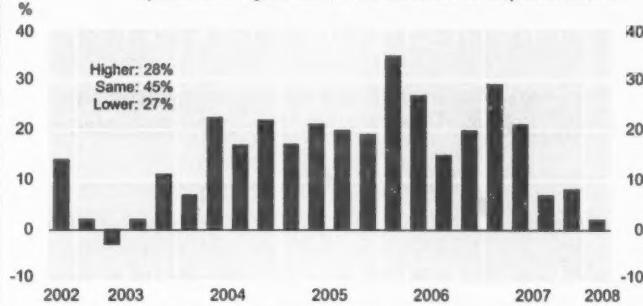
The balance of opinion on employment edged up in the spring survey (**Chart 4**). The balance of opinion is solidly positive for all sectors except manufacturing, where hiring intentions are muted. Intentions to increase employment are higher among firms in Western Canada than in other parts of the country.

Pressures on Production Capacity

The percentage of firms reporting that they would have difficulty meeting an unexpected increase in demand has fallen from recent highs to the average level for the survey (**Chart 5**). This drop reflects fewer reports of capacity pressures among firms based in Central and Eastern Canada, with pressures less evident in a number of sectors, notably manufacturing. Capacity constraints remain high and little changed among firms based in Western Canada. Firms in the West continue to account for most of those reporting that they would have significant difficulty meeting an increase in demand.

Chart 3 Investment in Machinery and Equipment: Balance of Opinion*

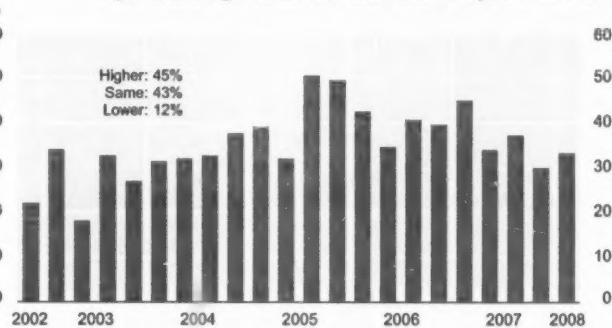
Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower, or the same as over the past 12 months?



* Percentage of firms expecting greater investment minus the percentage expecting less investment

Chart 4 Future Employment Level: Balance of Opinion*

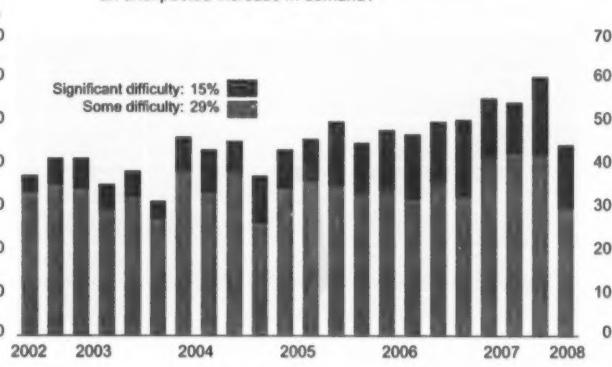
Over the next 12 months, is your firm's level of employment expected to be higher, lower, or the same as over the past 12 months?



* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5 Ability to Meet Demand

How would you rate the current ability of your firm to meet an unexpected increase in demand?



The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

Chart 6 Labour Shortages

Does your firm face any shortages of labour that restrict your ability to meet demand?

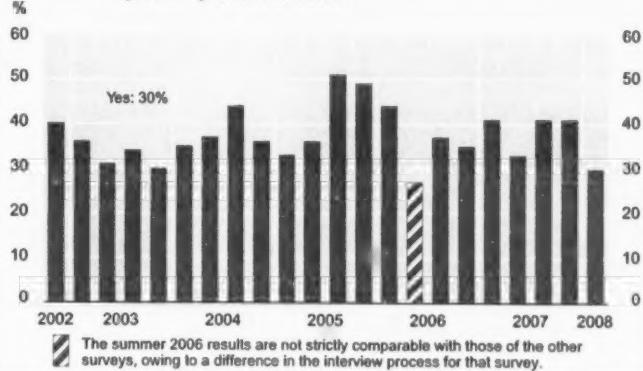
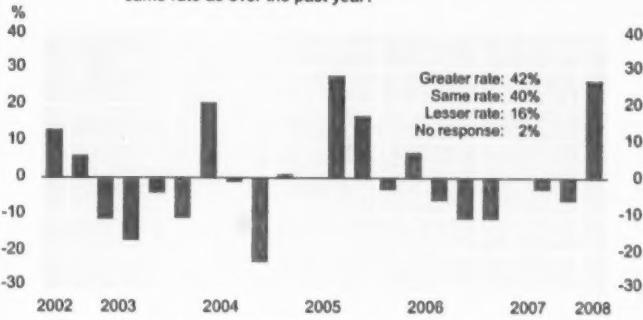


Chart 7 Input Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser, or the same rate as over the past year?



* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 8 Output Price Inflation: Balance of Opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past year?



* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The percentage of firms reporting that labour shortages are restricting their ability to meet demand is lower in the spring survey (Chart 6). While all regions recorded a decline, labour shortages continue to be more pronounced among firms in Western Canada, particularly in British Columbia.

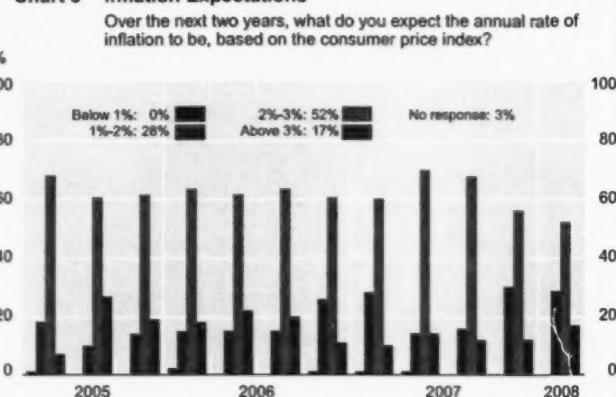
Prices and Inflation

The balance of opinion on input prices is strongly positive, indicating that firms expect the prices of inputs to rise at a faster pace over the next 12 months than they did over the past 12 months (Chart 7). Record-high oil prices at the time of the survey, along with the recent strength in food prices and rising prices of imports from China, led many firms to expect an acceleration in the growth of input prices going forward. The balance of opinion is at its highest level since the autumn 2005 survey, when energy prices surged following Hurricane Katrina.

On balance, firms expect their own output prices to increase at a faster pace over the next 12 months (Chart 8). In some cases, firms expect to pass through the higher cost increases of their inputs to maintain profit margins.

Expectations for consumer price inflation are largely in line with those in the previous survey, with the vast majority of firms still expecting inflation to fall within the Bank of Canada's inflation-control range of 1 to 3 per cent (Chart 9). There was, however, a slight increase in the number of firms expecting inflation to exceed 3 per cent.

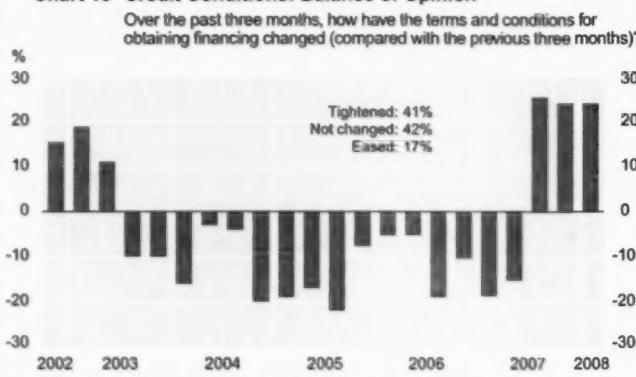
Chart 9 Inflation Expectations



Credit Conditions

The balance of opinion on credit conditions is positive for the third consecutive quarter, indicating that the terms and conditions for obtaining financing continued to tighten over the past three months (Chart 10). Reports of tighter credit conditions were widespread across sectors and regions, with most firms attributing the tightening to a market-wide repricing of risk.

Chart 10 Credit Conditions: Balance of Opinion*



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